

MEMORANDUM

TO: The Novell Board of Directors
FROM: David Bradford
DATE: September 15, 1995
RE: Novell's Proposed Equity Investment in SCO

Dear Board Member:

We are in the process of negotiating long-term business relationships with SCO and Hewlett-Packard for the purpose of strengthening UNIX on the Intel Platform. One of the key steps in this process is the sale of a portion of our UNIXWARE business to the Santa Cruz Operation. (For example, we will be retaining our traditional royalty stream from UNIX SVRX source code which was approximately \$50 million for FY 1995.) We are currently finalizing the terms of an Asset Purchase Agreement which would result in Novell owning (on a post-transaction basis) about 16% of SCO. SCO's current market cap is \$300 million at approximately \$10.00 a share.

Enclosed you will find copies of the following materials relating to SCO:

- A. A two year SCO Stock Trading Chart;
- B. SCO Historical Financial Performance;
- C. A Guide to the SCO Company and its products;
- D. SCO Slide Information; and
- E. Term Sheet for the proposed transaction.

It is anticipated that we could sign the Asset Purchase Agreement by Monday, September 18th. We are working towards an announcement for Wednesday, September 20th. The SCO transaction, along with our Memorandum of Understanding with Hewlett-Packard, would be announced simultaneously.

There will a 45 to 60 day period between the signing of the definitive Asset Purchase Agreement and date we close with SCO. During this period, each party will be able to withdraw for a material adverse change in business operations. Prior to signing a deal, however, we have conducted preliminary due diligence on SCO and here is some of the information we have obtained:

1. SCO's fourth quarter (ends September 30th) anticipated revenues and profits are \$50 million and \$.09 a share. This will meet analyst expectations, although there will be a



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one time write-off for 80 employee terminations, reducing the fourth quarter profit to \$0.01 or \$.02 cents a share.

2. SCO has approximately 1,160 employees.
3. Revenues are 90% on SCO Open Server Release 5, shipped initially in May 1995. Large revenue opportunity for SCO Windows and UNIX client integration products.
4. SCO projected FY 1996 revenues are approximately \$225 million.

More information is forthcoming by the hour, but I wanted to get something in your hands for weekend review.

Regards,

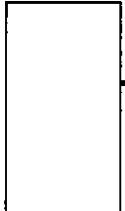
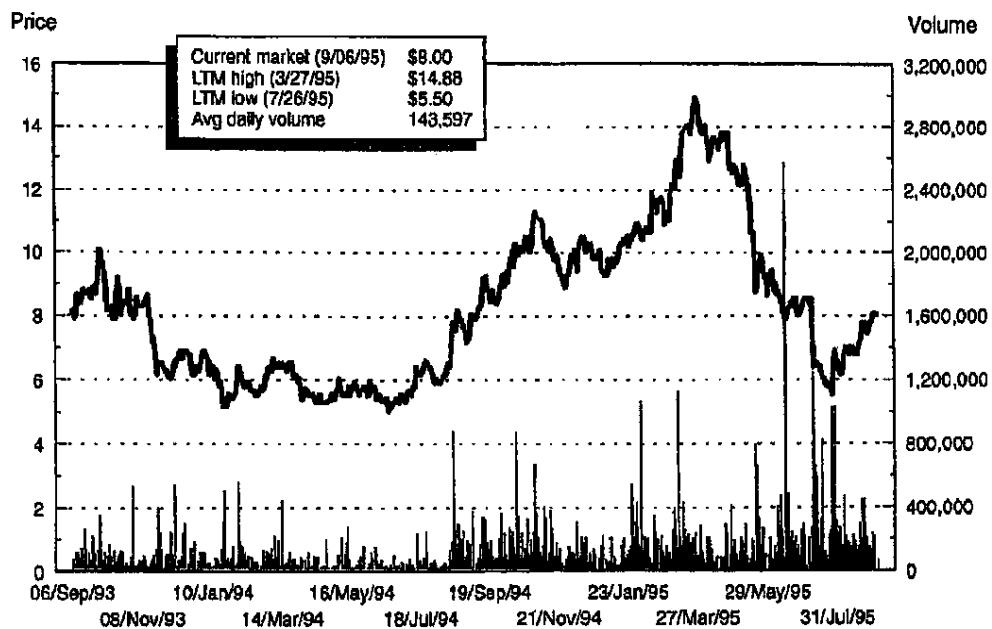
David Bradford



PROJECT SLEIGH RIDE

Market Trading Performance

Past two years



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PROJECT SLEIGH RIDE

Sleigh Ride Company Historical Financial Performance Analysis (\$MM, except per share data)

	Fiscal year ending September 30,								Year totals		
	1993A		1994A		1995A		1995YTD(1)		1993A	1994A	1995YTD(1)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net revenue											
Licenses	\$40.0	\$39.6	\$38.2	\$41.9	\$36.8	\$38.9	\$43.1	\$45.0	\$41.6	\$47.1	\$45.9
Services	4.8	4.3	4.6	4.9	4.8	4.8	5.1	5.6	5.4	6.2	5.1
Total net revenue	\$44.8	\$43.9	\$42.7	\$46.7	\$41.6	\$43.7	\$48.1	\$50.6	\$48.0	\$53.3	\$50.9
Costs of revenues											
Licenses	9.6	8.4	8.3	8.8	7.4	8.6	8.5	8.9	8.0	8.1	9.3
Services	4.2	4.2	4.3	4.4	3.9	3.8	4.7	4.6	4.6	5.1	4.8
Gross margin	31.8	31.3	30.2	33.5	38.3	31.3	35.0	37.8	35.2	40.0	36.8
Operating expenses											
Research and development	6.1	6.2	6.7	7.2	6.7	7.2	6.8	7.3	7.5	8.3	8.4
Sales and marketing	15.3	14.8	16.3	15.6	16.3	16.0	16.7	17.3	18.6	20.7	22.4
General and administrative	5.4	5.3	4.5	5.2	5.2	5.1	5.4	5.0	4.4	5.2	4.9
Total operating expenses	26.9	26.3	27.4	27.9	28.2	28.3	28.9	29.6	30.7	34.1	35.7
Operating income (loss)	8.2	4.9	2.7	5.6	2.1	3.8	6.0	7.5	4.5	5.9	1.1
Interest and other income, net	0.0	0.0	(0.0)	(0.1)	0.0	0.6	0.4	0.3	1.8	0.5	0.6
Income before taxes	8.2	4.9	2.7	5.6	2.1	3.6	6.4	7.8	5.5	6.4	1.7
Provision for income taxes	2.6	0.9	0.8	1.2	0.7	1.1	2.0	1.9	1.6	1.8	0.5
Net income	\$5.6	\$4.1	\$1.9	\$4.3	\$1.5	\$2.5	\$4.4	\$5.9	\$3.3	\$4.6	\$0.2
Earnings per share	\$0.33	\$0.14	\$0.07	\$0.13	\$0.05	\$0.08	\$0.14	\$0.18	\$0.14	\$0.14	\$0.04
% growth	-	-	-	-	-	-	-	-	-	-	-
Total net revenue	6.4%	-32.7%	102.7%	-64.9%	67.6%	77.5%	31.0%	-23.7%	-2.7%	-73.5%	34.2%
Gross margin	-	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	-	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	-	-	-	-	-
Shares used in per share calculations	27.84	28.67	29.51	31.71	31.81	31.86	31.83	32.34	28.14	33.74	33.49
% of total revenue											
Gross margin	69.2%	71.2%	70.5%	71.7%	72.9%	71.7%	72.6%	73.3%	73.3%	75.1%	72.3%
Research and development	13.6	14.1	15.6	15.3	16.2	16.6	14.2	14.4	15.5	15.6	16.5
Sales and marketing	34.1	33.8	38.0	39.4	39.1	36.6	34.6	34.2	39.3	38.8	44.0
General and administrative	12.2	12.1	10.5	11.0	12.5	11.6	11.3	9.9	9.1	9.7	9.7
Total operating expenses	59.9	60.0	64.2	59.8	67.7	64.8	60.1	58.5	63.9	64.1	70.1
Operating income (loss)	9.3	11.2	6.4	11.9	5.1	6.9	12.5	14.8	9.5	11.1	2.2
Net income	8.1	9.1	4.5	9.0	3.6	5.7	9.1	11.6	8.2	8.6	2.4
% growth from previous period											
Total net revenue	-	(2.1)%	(2.7)%	9.4%	(10.9)%	5.0%	10.1%	5.0%	(5.1)%	11.0%	(44.4)%
Gross margin	-	-	0.7%	(3.5)%	11.1%	(9.4)%	2.3%	11.5%	6.0%	(5.0)%	13.8%
Operating income (loss)	-	-	17.5%	(44.7)%	104.7%	(61.6)%	40.9%	99.7%	24.1%	(39.2)%	50.0%
Net income	-	-	9.5%	(31.3)%	117.2%	(64.8)%	61.8%	77.0%	33.7%	(33.1)%	16.7%
% growth from same period, previous year											
Total revenue	-	-	-	-	-	(7.1)%	(0.4)%	12.6%	8.2%	15.2%	21.9%
Gross margin	-	-	-	-	-	(2.2)%	0.3%	15.9%	10.5%	16.0%	27.7%
Operating income (loss)	-	-	-	-	-	(48.9)%	(38.8)%	121.0%	34.0%	112.4%	95.9%
Net income	-	-	-	-	-	(59.2)%	(37.0)%	127.1%	39.8%	165.8%	84.9%

Note: (1) Excludes \$14.1MM in nonrecurring charges for costs associated with the company's acquisition of Visionware.